

House Study Bill 512

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL
BY CHAIRPERSON ELGIN)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act creating a defined contribution pension option for
2 employees covered by the Iowa public employees' retirement
3 system.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
5 TLSB 5250HC 81
6 ec/cf/24

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1 1 Section 1. NEW SECTION. 97E.1 PLAN CREATED ==
1 2 DEFINITIONS.
1 3 1. An Iowa public employees' defined contribution
1 4 retirement plan is created within the office of the treasurer.
1 5 2. As used in this chapter, unless the context otherwise
1 6 requires:
1 7 a. "Board" means the defined contribution board created in
1 8 section 97E.2.
1 9 b. "Defined benefit system" means the Iowa public
1 10 employees' retirement system created in chapter 97B.
1 11 c. "Member" means an employee who has elected coverage
1 12 under the plan and who has a retirement account in the plan.
1 13 d. "Plan" means the Iowa public employees' defined
1 14 contribution retirement plan created in this chapter.
1 15 Sec. 2. NEW SECTION. 97E.2 DEFINED CONTRIBUTION BOARD.
1 16 1. BOARD ESTABLISHED. A board is established to be known
1 17 as the defined contribution board, referred to in this chapter
1 18 as the "board". The duties of the board are to establish
1 19 policy, and review its implementation, in matters relating to
1 20 the establishment and management of the optional plan.
1 21 2. PROVIDER SELECTION == INVESTMENT REVIEW.
1 22 a. The board shall review and approve, prior to the
1 23 execution of a contract with the office of the treasurer, the
1 24 hiring of any plan administrator or any investment provider
1 25 for the plan.
1 26 b. At least annually, the board shall review the
1 27 investment providers and options provided under the plan and
1 28 shall, in consultation with the office of the treasurer, make
1 29 investment information available to members and potential
1 30 members of the plan on an ongoing basis.
1 31 3. MEMBERSHIP.
1 32 a. The board shall consist of eleven voting members. The
1 33 voting members shall be as follows:
1 34 (1) Two public members, appointed by the governor, who are
1 35 not members of the defined benefit system created in chapter
2 1 97B or the plan created in this chapter.
2 2 (2) Four members, appointed by the governor, who are
2 3 eligible to be members of the plan. Of the four members
2 4 appointed, one shall be an active member who is an employee of
2 5 a school district, area education agency, or merged area and
2 6 three shall be active members who are not employees of a
2 7 school district, area education agency, or merged area. Of
2 8 the three members not employees of a school district, area
2 9 education agency, or merged area, one shall be an employee of
2 10 the state, one shall be an employee of a county, and one shall
2 11 be an employee of a city. Prior to the appointment by the
2 12 governor of a member of the board under this subparagraph, the
2 13 constituent group representing the largest number of school
2 14 district, area education agency, and merged area employees,
2 15 state employees, county employees, and city employees,
2 16 respectively, shall submit a slate of at least two nominees
2 17 per that employee position to the governor for the governor's

2 18 consideration. The governor is not required to appoint a
2 19 member from the slate submitted.
2 20 (3) The treasurer of state.
2 21 (4) Director of the department of administrative services.
2 22 (5) Three members, appointed by the governor, who
2 23 represent employers of employees eligible to be members of the
2 24 plan. One member shall be a member of a constituent group
2 25 that represents cities, one shall be a member of a constituent
2 26 group that represents counties, and one shall be a member of a
2 27 constituent group that represents local school districts.
2 28 Prior to the appointment by the governor of a member of the
2 29 board under this subparagraph, the constituent group
2 30 representing the largest number of counties, cities, and
2 31 school districts, respectively, shall submit a slate of at
2 32 least two nominees per that employer position to the governor
2 33 for the governor's consideration. The governor is not
2 34 required to appoint a member from the slate submitted.

2 35 b. Six voting members of the board shall constitute a
3 1 quorum.

3 2 c. The two public members and the three employer members
3 3 shall be paid their actual expenses incurred in the
3 4 performance of their duties and shall receive a per diem as
3 5 specified in section 7E.6 for each day of service not
3 6 exceeding forty days per year. The members who are eligible
3 7 to be a member of the plan, the director of the department of
3 8 administrative services, and the treasurer of state shall be
3 9 paid their actual expenses incurred in the performance of
3 10 their duties as members of the board, and the performance of
3 11 their duties as members of the board shall not affect their
3 12 salaries, vacations, or leaves of absence for sickness or
3 13 injury.

3 14 d. The appointive terms of the members appointed by the
3 15 governor are for a period of six years beginning and ending as
3 16 provided in section 69.19. If there is a vacancy in the
3 17 membership of the board for one of the members appointed by
3 18 the governor, the governor has the power of appointment.
3 19 Gubernatorial appointees to this board are subject to
3 20 confirmation by the senate.

3 21 Sec. 3. NEW SECTION. 97E.3 DEFINED CONTRIBUTION PLAN
3 22 ESTABLISHED == ASSETS TO BE HELD IN TRUST == CONTRACTED
3 23 SERVICES.

3 24 1. The office of the treasurer shall establish in
3 25 conjunction with the Iowa public employees' retirement system
3 26 a defined contribution plan in accordance with this chapter.
3 27 The plan must be established as a pension plan for the
3 28 exclusive benefit of members and their beneficiaries and as a
3 29 qualified plan pursuant to section 401(a) of the Internal
3 30 Revenue Code and its implementing regulations. Retirement
3 31 accounts must be established for each member of the plan.
3 32 Assets of the plan must be held in trust. The plan is
3 33 established in addition to any retirement, pension, deferred
3 34 compensation, or other benefit plan administered by the state
3 35 or a political subdivision.

4 1 2. The office of the treasurer shall contract for plan
4 2 administration and use a competitive bidding process when
4 3 contracting for consulting, educational, investment,
4 4 recordkeeping, or other services for the plan.

4 5 3. The office of the treasurer shall contract for a
4 6 qualified consultant to assist in preparation of the request
4 7 for bids or request for proposals for plan services.

4 8 Sec. 4. NEW SECTION. 97E.4 PLAN GOALS.

4 9 In implementing and administering the plan, the office of
4 10 the treasurer and board shall consider the following goals for
4 11 the plan:

4 12 1. The impact to employers of changes to administrative
4 13 processes in order to establish the plan is minimized to the
4 14 extent possible.

4 15 2. The administrative structure for the plan is configured
4 16 in an economical and efficient manner.

4 17 3. Administration and services for the plan are contracted
4 18 out to the extent possible, but the department shall provide
4 19 for the diligent oversight of the contracts.

4 20 4. Reasonable participant services are provided for and
4 21 fees are commensurate with the services.

4 22 5. Lines of communication and responsibilities are clearly
4 23 established so that employers or their personnel and payroll
4 24 officers do not advise members about plan choices or
4 25 investment alternatives.

4 26 6. Employers are encouraged to provide paid time for
4 27 employees to attend educational programs regarding the plan
4 28 sponsored by the office of the treasurer and the board.

4 29 Sec. 5. NEW SECTION. 97E.5 OFFICE OF THE TREASURER

4 30 POWERS AND DUTIES == RULEMAKING.

4 31 1. The office of the treasurer has the powers and shall
4 32 perform the duties regarding the plan, as applicable.

4 33 2. The office of the treasurer shall, in accordance with
4 34 chapter 17A, adopt rules necessary for the administration of
4 35 this chapter, including rules concerning the following:

5 1 a. Matters necessary for the treatment of the plan as a
5 2 qualified plan under applicable sections of the Internal
5 3 Revenue Code.

5 4 b. The treatment of dormant or inactive accounts.

5 5 c. The security and privacy of information maintained by
5 6 the office of the treasurer concerning a member's investments,
5 7 as required by applicable law.

5 8 d. Minimum asset, reserve, insurance, or other security
5 9 requirements intended to ensure the solvency of a contractor
5 10 used by the office of the treasurer for investment services.

5 11 e. The commencement of benefit payments under the plan.

5 12 Sec. 6. NEW SECTION. 97E.6 ADMINISTRATIVE EXPENSES AND
5 13 FEES.

5 14 1. The office of the treasurer may establish a fund within
5 15 the plan for paying the plan's administrative expenses.

5 16 2. The office of the treasurer may do any of the
5 17 following:

5 18 a. Assess fees to pay the reasonable administrative costs
5 19 of the plan.

5 20 b. Negotiate with a vendor or vendors for vendor
5 21 reimbursement of administrative expenses for the plan.

5 22 3. All fees assessed must be fully disclosed to plan
5 23 members and treated as public information.

5 24 4. Costs for the office of the treasurer to provide for
5 25 contract oversight are included as part of the administrative
5 26 expenses of the plan.

5 27 Sec. 7. NEW SECTION. 97E.7 PLAN MEMBERSHIP.

5 28 Except as otherwise provided in this chapter, a member of
5 29 the plan means an employee who elected coverage under the plan
5 30 pursuant to section 97B.42.

5 31 Sec. 8. NEW SECTION. 97E.8 TRANSFERS OR ROLLOVERS INTO
5 32 PLAN == MEMBERSHIP CREDIT FOR PURPOSES OF VESTING.

5 33 1. Except as provided in this section, the office of the
5 34 treasurer shall accept the transfer or rollover of assets from
5 35 another qualified plan to the member's retirement account in
6 1 the plan.

6 2 2. a. Moneys from the defined benefit system shall not be
6 3 transferred or rolled over to a retirement account in the plan
6 4 unless the moneys were contributed to the defined benefit
6 5 system on an after-tax basis.

6 6 b. To the extent that the transfer or rollover is
6 7 disallowed under the Internal Revenue Code provisions in
6 8 effect as of the calendar year immediately preceding the date
6 9 of the transfer or rollover, a member shall not transfer or
6 10 roll over to a retirement account contributions made under
6 11 section 403(b) or 457 of the Internal Revenue Code.

6 12 Sec. 9. NEW SECTION. 97E.9 VESTING == ALLOCATION OF
6 13 CONTRIBUTIONS.

6 14 1. A member is fully vested in the plan with respect to
6 15 the member's and employer's contributions and the income from
6 16 those contributions from the date that the employee becomes a
6 17 member of the plan.

6 18 2. Each member's retirement account in the plan shall be
6 19 credited with member and employer contributions calculated as
6 20 provided in section 97B.11.

6 21 Sec. 10. NEW SECTION. 97E.10 MAXIMUM CONTRIBUTION
6 22 LIMITATION.

6 23 The annual additions to a retirement account in the plan
6 24 shall not exceed the annual limits on contributions as
6 25 specified in section 415 of the Internal Revenue Code and
6 26 adjusted annually by the commissioner of internal revenue.

6 27 Sec. 11. NEW SECTION. 97E.11 INVESTMENT ALTERNATIVES ==
6 28 NOTICE OF CHANGES == DEFAULT FUND.

6 29 1. The office of the treasurer shall contract with a
6 30 vendor or vendors to provide for at least eight investment
6 31 alternatives within the plan. In providing for the plan's
6 32 investment alternatives, only a vendor or vendors offering
6 33 suitable and well-managed investments that are authorized to
6 34 do business in this state shall be used.

6 35 2. The investment alternatives shall include at least
7 1 three that offer plan members the following:

7 2 a. The ability to materially affect the potential return
7 3 on amounts in the member's retirement account and to specify
7 4 the degree of risk to which those amounts are subject.

7 5 b. A range of investment alternatives that does all of the
7 6 following:

7 7 (1) Provides sound and diversified funds.
7 8 (2) Offers, under each alternative, a materially different
7 9 risk and return characteristic than found in the other
7 10 alternatives.

7 11 (3) Allows the member or beneficiary to choose among the
7 12 alternatives to achieve a portfolio with an aggregate risk and
7 13 return characteristic to achieve a point within the risk and
7 14 return range normally appropriate for the member or
7 15 beneficiary based on age, income, and individual retirement
7 16 goals.

7 17 (4) Tends to minimize through diversification the overall
7 18 risk of large losses.

7 19 3. Subject to a competitive bidding process, the
7 20 investment alternatives may include the investment
7 21 alternatives offered to the state employees' deferred
7 22 compensation plan pursuant to section 8A.433.

7 23 4. The office of the treasurer shall from time to time
7 24 review the suitability and management of investment
7 25 alternatives and may change the alternatives to be offered.
7 26 The office of the treasurer shall notify affected members of
7 27 potential changes in alternatives before any changes become
7 28 effective.

7 29 5. Assets within each member's retirement account must be
7 30 invested as directed by the member.

7 31 6. The office of the treasurer shall provide for a
7 32 balanced fund to be established as a default investment fund.
7 33 If a member fails to direct how the member's retirement
7 34 account is to be invested, the member's entire account balance
7 35 shall be invested in the default fund.

8 1 Sec. 12. NEW SECTION. 97E.12 PAYOUT OF RETIREMENT
8 2 ACCOUNT BALANCES WHEN TERMINATING PLAN MEMBERSHIP.

8 3 Any time after termination of covered employment by a
8 4 member, a member or the member's beneficiary may terminate
8 5 plan membership by making a written application to the office
8 6 of the treasurer and removing the member's retirement account
8 7 balance from the plan through any combination of the following
8 8 payout options, each of which is subject to applicable
8 9 regulations of the internal revenue service:

8 10 1. A direct rollover to an eligible retirement plan or to
8 11 an individual retirement account or annuity pursuant to
8 12 section 401(a)(31) of the Internal Revenue Code.

8 13 2. A regular rollover to an eligible retirement plan
8 14 pursuant to section 402(c) of the Internal Revenue Code.

8 15 3. A lump sum distribution of the member's retirement
8 16 account balance.

8 17 Sec. 13. NEW SECTION. 97E.13 DISTRIBUTION OPTIONS FOR
8 18 PLAN MEMBERS == RULEMAKING == MINIMUM DISTRIBUTION
8 19 REQUIREMENTS == RESTRICTIONS.

8 20 1. Subject to the requirements of this chapter and chapter
8 21 97B, if applicable, a member may, after termination of covered
8 22 employment, leave the member's retirement account balance in
8 23 the plan, and the member is eligible for a distribution as
8 24 provided in this section.

8 25 2. After termination of covered employment, upon written
8 26 application to the office of the treasurer, a member may, if
8 27 provided for by the board, select a distribution option
8 28 offered pursuant to a contract negotiated by the office of the
8 29 treasurer with a plan vendor or vendors.

8 30 3. A member who is less than seventy and one-half years of
8 31 age who returns to covered employment shall not continue to
8 32 receive a distribution under this section while the member is
8 33 actively employed in a covered position.

8 34 4. The office of the treasurer shall adopt rules pursuant
8 35 to chapter 17A to administer this section and to provide that
9 1 distributions comply with the minimum distribution
9 2 requirements established in the Internal Revenue Code.

9 3 Sec. 14. NEW SECTION. 97E.14 DEATH BENEFITS.

9 4 A plan member's beneficiary shall be designated and
9 5 determined pursuant to rules adopted by the office of the
9 6 treasurer under chapter 17A. Upon written application filed
9 7 with the office of the treasurer after the death of a plan
9 8 member, the member's beneficiary is entitled to the member's
9 9 retirement account balance and all rights established in and
9 10 subject to this chapter.

9 11 Sec. 15. NEW SECTION. 97E.15 MINIMUM RETIREMENT ACCOUNT
9 12 BALANCE REQUIRED FOR MEMBERSHIP AFTER TERMINATION ==

9 13 ADJUSTMENT BY RULE.

9 14 1. a. If a member's retirement account balance is less
9 15 than five thousand dollars at the time that the member

9 16 terminates covered employment, the member shall terminate plan
9 17 membership by removing the member's retirement account balance
9 18 from the plan in a manner provided pursuant to section 97E.12.
9 19 b. If the member fails to remove the member's retirement
9 20 account balance, the office of the treasurer may close the
9 21 account by paying to the member a lump sum distribution of the
9 22 member's entire account balance.

9 23 2. The office of the treasurer may by rule adjust the
9 24 minimum retirement account balance provided in this section as
9 25 necessary to maintain reasonable administrative costs and to
9 26 account for inflation and to ensure compliance with applicable
9 27 internal revenue service requirements.

9 28 Sec. 16. Section 97B.1, subsection 2, Code 2005, is
9 29 amended by adding the following new subsection:

9 30 NEW SUBSECTION. cc. "Defined contribution plan" means the
9 31 Iowa public employees' defined contribution plan created in
9 32 chapter 97E.

9 33 Sec. 17. Section 97B.1A, unnumbered paragraph 1, Code
9 34 Supplement 2005, is amended to read as follows:

9 35 When used in this chapter and chapter 97E, unless the
10 1 context otherwise requires:

10 2 Sec. 18. Section 97B.42, Code 2005, is amended by adding
10 3 the following new unnumbered paragraphs:

10 4 NEW UNNUMBERED PARAGRAPH. Notwithstanding any other
10 5 provision of this section, commencing July 1, 2007, a member
10 6 in regular service may elect coverage under the defined
10 7 contribution plan created in chapter 97E, in lieu of
10 8 continuing or commencing contributions to the Iowa public
10 9 employees' retirement system. However, the employer's annual
10 10 contribution in dollars to the defined contribution plan shall
10 11 not exceed the annual contribution in dollars which the
10 12 employer would contribute if the employee had elected to
10 13 remain an active member under this chapter, as set forth in
10 14 section 97B.11. A member who elects coverage under the
10 15 defined contribution plan may withdraw the member's
10 16 accumulated contributions and the member's share of the
10 17 accumulated employer contributions as provided in section
10 18 97B.53, effective when coverage under the defined contribution
10 19 plan commences. A member who is employed in a position as an
10 20 employee in regular service and who is covered under the
10 21 system in this chapter on July 1, 2007, must file an election
10 22 for coverage under the defined contribution described in
10 23 chapter 97E, with the system and the member's employer within
10 24 eighteen months of the first day on which coverage commences
10 25 under the defined contribution plan, or the employee shall
10 26 remain a member under this chapter and shall not be eligible
10 27 to elect to participate in the defined contribution plan at a
10 28 later date. A person who is newly hired in a position as an
10 29 employee in regular service on or after July 1, 2007, must
10 30 file an election for coverage under the defined contribution
10 31 plan with the system and the person's employer within sixty
10 32 days of commencing employment, or the employee shall remain a
10 33 member under this chapter and shall not be eligible to elect
10 34 to participate in the defined contribution plan at a later
10 35 date. A decision to elect out of coverage under this chapter
11 1 is irrevocable upon approval from the system.

11 2 NEW UNNUMBERED PARAGRAPH. Notwithstanding any provision of
11 3 this section to the contrary, a member of the system who is
11 4 subject to a qualified order for the purpose of enforcing
11 5 child, spousal, or medical support obligations or marital
11 6 property orders pursuant to section 97B.39 shall not be
11 7 eligible to transfer to the defined contribution plan created
11 8 in chapter 97E unless the order is modified to apply under the
11 9 defined contribution plan created in chapter 97E.

11 10 Sec. 19. DEFINED CONTRIBUTION BOARD == INITIAL
11 11 APPOINTMENTS. Notwithstanding any provision of section 97E.2
11 12 to the contrary, the term of membership for an initial
11 13 appointment to the defined contribution board shall be as
11 14 follows:

11 15 1. The following shall be appointed for an initial six=
11 16 year term: Two employee members, one employer member, and one
11 17 public member, as designated by the governor.

11 18 2. The following shall be appointed for an initial four=
11 19 year term: One employee member, one employer member, and one
11 20 public member, as designated by the governor.

11 21 3. The following shall be appointed for an initial two=
11 22 year term: One employee member and one employer member, as
11 23 designated by the governor.

11 24 EXPLANATION

11 25 This bill establishes an option for employees covered or
11 26 eligible to be covered under the Iowa public employees'

11 27 retirement system (IPERS) to elect out of coverage under that
11 28 system and into a defined contribution plan established by the
11 29 office of the treasurer effective July 1, 2007.
11 30 Membership in the defined contribution plan is established
11 31 by the bill. The bill provides that a person hired on or
11 32 after July 1, 2007, in regular service, who is eligible for
11 33 coverage under IPERS, has the option of electing out of that
11 34 coverage and electing coverage under a defined contribution
11 35 plan established by the office of the treasurer. Active
12 1 members of IPERS in regular service as of July 1, 2007, are
12 2 given an option for 18 months from July 1, 2007, to transfer
12 3 to the defined contribution plan. If a member transfers
12 4 coverage, IPERS shall transfer moneys to the member's account
12 5 in the defined contribution plan in an amount equal to the
12 6 amount the person would be eligible to receive as a refund if
12 7 the person terminated membership under IPERS.
12 8 The bill provides that the office of the treasurer shall
12 9 establish the defined contribution plan as a qualified plan
12 10 pursuant to section 401(a) of the Internal Revenue Code. The
12 11 bill provides that the office of the treasurer shall contract
12 12 for the administration of the plan through a competitive
12 13 bidding process. The bill authorizes the office of the
12 14 treasurer to assess fees for the administration of the plan.
12 15 The bill provides for the establishment of a defined
12 16 contribution board which shall review and approve all
12 17 contracts concerning the defined contribution plan and shall
12 18 provide ongoing review of plan providers and investment
12 19 options. The board consists of 11 members, to include the
12 20 treasurer of state, the director of the department of
12 21 administrative services, four employee members, three employer
12 22 members, and two public members. Except for the treasurer and
12 23 director of the department of administrative services, the
12 24 governor appoints the members of the board. Of the four
12 25 employee members, one shall be from a school, and three shall
12 26 be employed by a city, county, and the state, respectively.
12 27 Of the three employer members, one shall be from a local
12 28 school district, one from a city, and one from a county. For
12 29 the seven employee and employer members, the constituent group
12 30 representing that member shall submit a slate of two names to
12 31 the governor for the governor's consideration in filling that
12 32 position. The bill further provides transition provisions
12 33 governing the terms of initial appointments to the board.
12 34 The bill provides that a member shall be vested in the
12 35 defined contribution plan immediately.
13 1 The bill provides that contributions to the plan from
13 2 employers and employees shall be based on the percentage rates
13 3 provided members of IPERS.
13 4 The bill provides that at least eight investment choices be
13 5 provided to members under the defined contribution plan and
13 6 provides for member selection of investment choices. The bill
13 7 provides that moneys in a member's retirement account shall be
13 8 deposited in a balanced fund if the member fails to select an
13 9 investment option. Distributions to plan members, eligible
13 10 rollovers of accounts, and death benefit provisions are
13 11 included in the bill. The bill also provides for an immediate
13 12 distribution of moneys in a member's account if the account
13 13 balance is less than \$5,000, or the amount established by the
13 14 treasurer's office, at the time the member is terminated from
13 15 covered employment.
13 16 LSB 5250HC 81
13 17 ec:rj/cf/24